

Message Text

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: FRG ANNUAL ECONOMIC REPORT FOR 1977
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REF: BONN 00831

SUMMARY: THE GOVERNMENT'S ANNUAL ECONOMIC REPORT
OFFERED NO SURPRISES. IT TARGETED REAL GNP GROWTH AT
5 PERCENT FOR 1977 AND DID NOT OFFER ANY FURTHER
ELUCIDATION ON THE CONTEMPLATED "INFRASTRUCTURE INVEST-

MENT" PROGRAM. THE REPORT ASSERTED THAT WHILE THE GERMAN PUBLIC SECTOR DEFICIT OF 4.2 PERCENT OF GNP IN 1976 AND A PROJECTED 3.5 PERCENT IN 1977 IS LARGER THAN THAT OF OTHER INDUSTRIAL COUNTRIES, INCLUDING THE U.S.; IT IS JUSTIFIED BY THE CURRENT ECONOMIC SITUATION BUT SHOULD BE REDUCED TO 2 PERCENT IN THE MEDIUM-TERM. DESPITE A 1/2 PERCENT INCREASE IN CONSUMER PRICES DUE TO EXCISE TAXES AND OIL PRICE INCREASES, THE REPORT PROJECTS THAT THE COST OF LIVING DURING 1977 WILL INCREASE BY ONLY 4 PERCENT (YEARLY AVERAGE OVER YEARLY AVERAGE).

COMPARED WITH THE OECD 3.5 PERCENT GROWTH FORECAST FOR GERMANY IN 1977, THE ASSUMPTIONS INCORPORATED IN THE FRG REPORT ARE STRIKINGLY ON THE HIGH SIDE RE EXPORTS AND LOOK FORWARD TO ACCELERATION IN THE RATES OF GROWTH IN PRIVATE CONSUMPTION AND INVESTMENT (BUT NOT BY THE PUBLIC SECTOR). ALTHOUGH LAST YEAR'S REPORT IN FACT UNDERESTIMATED ACTUAL GNP GROWTH, THIS YEAR IT COULD BE A DIFFERENT STORY. END SUMMARY.

1. AS IS USUALLY THE CASE, THE GOVERNMENT'S ANNUAL ECONOMIC REPORT ISSUED JANUARY 26 WAS A BLAND AND APPROXIMATE AFFAIR OFFERING NOTHING NEW IN THE WAY OF PROJECTIONS OR POLICY IDEAS. THE 5 PERCENT REAL GDP GROWTH "TARGET" AND 4 PERCENT INFLATION RATE, AS WELL AS ALL THE OTHER ECONOMIC TARGETS, HAD ALREADY APPEARED IN THE GOVERNMENT'S PRESENTATION TO THE CONCERTED ACTION MEETING TWO WEEKS AGO (SEE REFTEL). THE LIMITED OFFICIAL USE

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STATISTICAL DATA WAS SPARSE AND ROUNDED, AS MAY BE SEEN IN THE ACCOMPANYING TABLE, EG., NO ABSOLUTE FIGURES AND ONLY NOMINAL GROWTH RATES FOR ONLY SOME OF THE GNP COMPONENTS, AND THESE WERE STATED AS RANGES.

2. THE LACK OF PRECISION, OF COURSE, LEAVES SOME CUSHION FOR FORECASTING ERROR. HOWEVER, THE "ABOUT" 5 PERCENT REAL GDP GROWTH "TARGET" WILL BE WIDELY ACCEPTED AND CORRECTLY INTERPRETED AS THE GOVERNMENT'S FORECAST. WE ARE TOLD THAT, AS IN THE PAST, THIS DOCUMENT WILL SERVE AS THE FRG'S SUBMISSION TO THE OECD'S ECONOMIC DEVELOPMENT REVIEW COMMITTEE FOR ITS ANNUAL REVIEW OF THE GERMAN ECONOMY NEXT SPRING. IT IS THEREFORE THE OFFICIAL ECONOMIC GUIDEPOST AND WILL REMAIN SO FOR SOMETIME. ALSO, IT PROMISES TO BE SOMEWHAT CONTROVERSIAL IN THAT THE OECD FORECAST FOR REAL GNP GROWTH IS SIGNIFICANTLY LOWER AT 3.5 PERCENT. WORTHWHILE NOTING IS THE FACT THAT WHILE THE GNP PROJECTION IN THE ANNUAL ECONOMIC REPORT WAS OPTIMISTIC BY SEVERAL

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PERCENTAGE POINTS IN 1975, IT WAS REMARKABLY CLOSE TO
THE MARK IN 1976 FOR ALMOST ALL THE TARGETS, AND EVEN
UNDERESTIMATED THE EVENTUAL ACHIEVEMENT IN REAL GDP
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GROWTH BY ONE PERCENTAGE POINT.

3. THE REPORT STATES THAT ITS PROJECTION IS BASED ON AN IMPORTANT IMPULSE FROM EXPANDING EXPORTS UNHAMPERED BY TRADE RESTRICTIONS. WHILE IT RECOGNIZES THAT THE OECD FORECASTS ONLY A 6 PERCENT INCREASE IN WORLD TRADE VOLUME, THE REPORT SPECIFIES THAT ITS ASSUMPTION IS FOR A 7 TO 8 PERCENT INCREASE, WITH GERMANY'S SHARING OVER-PROPORTIONATELY IN THIS WITH AN 8 TO 10 PERCENT REAL GAIN IN EXPORTS OF GOODS AND SERVICES (NOMINAL GAIN: 11 TO 13 PERCENT) AND IN SUPPORT CITES THE ENCOURAGING ORDER STATISTICS. THE GOODS AND SERVICES IMPORT FORECAST IS FOR A 12 TO 14 PERCENT NOMINAL GAIN (NO REAL GOODS ONLY DATA GIVEN). THE NOMINAL NET FOREIGN BALANCE INDICATED (SEE TABLE) IS FIXED AT ABOUT THE SAME LEVEL AS IN 1976.

4. CONCERNING INTERNATIONAL MONETARY QUESTIONS, THE REPORT STRESSES THE FRG'S BELIEF THAT IN CASE OF BALANCE OF PAYMENTS DIFFICULTIES, COUNTRIES SHOULD UTILIZE THE NOW ENLARGED CREDIT FACILITIES OF THE IMF, BUT INDICATES THAT THE FRG IS ALSO READY TO PARTICIPATE IN MULTILATERAL BALANCE OF PAYMENTS ASSISTANCE PROVIDED THAT THE RECIPIENTS THEMSELVES ALSO UNDERTAKE ENERGETIC MEASURES TO STRENGTHEN THEIR ECONOMIES.

5. STOCKBUILDING, IT STATES IN THE NARRATIVE, WILL NOT PLAY SUCH AN IMPORTANT ROLE AS PREVIOUSLY. (BUT, IN NOMINAL TERMS, THERE IS A STILL POSITIVE SWING IN INVENTORY CHANGES OF DM 5 TO 7 BILLION.) OFFSETTING THIS, AN ACCELERATION IN PRIVATE CONSUMPTION AND GROSS FIXED INVESTMENT IS FORESEEN AS SIGNIFICANT IN 1977'S ECONOMIC DEVELOPMENT. IMPLIED IS A REAL GROWTH RATE OF ABOUT 4.5 PERCENT IN PRIVATE CONSUMPTION AS COMPARED TO 3.5 PERCENT IN 1976. NOMINALLY (NO REAL DATA PROVIDED), INVESTMENT IS PREDICTED TO RISE 9 TO 10 LIMITED OFFICIAL USE

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PERCENT IN COMPARISON WITH 1976'S 7 PERCENT RATE. PUBLIC INVESTMENT IS PROJECTED TO RISE ONLY 1 TO 2 PERCENT IN NOMINAL TERMS.

6. NO SPECIFIC FORECASTED FIGURE FOR THE AVERAGE NUMBER OF UNEMPLOYED IS PROVIDED IN THE REPORT, ALTHOUGH IT STATES THAT THE 1976 AVERAGE UNEMPLOYMENT RATE WILL BE REDUCED TO UNDER 4 PERCENT. EMPLOYMENT WILL BE UP BY ABOUT 0.5 PERCENT, AND PRODUCTIVITY BY 4.5 PERCENT.

7. TOTAL PUBLIC SECTOR DEFICITS ARE ESTIMATED TO
DECLINE FROM ROUGHLY DM 47 BILLION IN 1976 TO DM 40 TO
45 BILLION IN 1977. IN THIS CONTEXT, THE REPORT MAKES
REFERENCE TO THE INTERNATIONAL DISCUSSION WHETHER OR NOT
FINANCIAL ENDEAVORS WILL SUFFICE TO SUFFICIENTLY
STIMULATE DOMESTIC DEMAND IN THE FRG. THE TOTAL
PUBLIC SECTOR DEFICIT IN THE FRG (INCLUDING SOCIAL
SECURITY) AMOUNTED TO A 4.2 PERCENT OF NOMINAL GNP IN
1976 AND THIS RATE IS PROJECTED TO COME TO ABOUT 3.5
PERCENT IN 1977, THE REPORT CONTINUES. COMPARABLE
FIGURES OF IMPORTANT INDUSTRIALIZED COUNTRIES, AMONG
THEM THE U.S. ARE LOWER, THE REPORT ASSERTS, ADDING
THAT THE 1977 DEFICIT IS COMENSURATE WITH THE UNDER-

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LYING BUSINESS SITUATION BUT THAT, OVER THE MEDIUM-TERM
IT MUST BE REDUCED TO 2 PERCENT OF GNP.

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8. THE ANNOUNCED "MEDIUM-TERM INFRASTRUCTURE INVESTMENT"
PROGRAM IS NOT DEALT WITH IN ANY DETAIL IN THE ANNUAL
ECONOMIC REPORT. ECONOMICS MINISTER FRIDERICHs TOLD
THE PRESS THAT THIS CONTEMPLATED PROGRAM WAS NOT
INCORPORATED IN THE PROJECTIONS OF THE REPORT. THIS
PROGRAM IS BASICALLY A MEDIUM-TERM STRUCTURAL ONE FOR
1977 AND SHOULD BE CHARACTERIZED UNDER THE HEADING
"REDUCTION OF RISKS." THE PROGRAM, HE IMPLIED, WAS NOT
INTENDED TO BOOST GROWTH THIS YEAR BEYOND
THE PROJECTED 5 PERCENT GROWTH BUT WOULD APPRECIABLY
REDUCE THE RISKS INVOLVED IN THE 5 PERCENT PROJECTION.

9. THE PERTINENT TABLE FOLLOWS:

FRG 1977 ANNUAL ECONOMIC REPORT TARGET PROJECTIONS
(PERCENT CHANGE FROM 1976 UNLESS OTHERWISE INDICATED)

NOMINAL GNP

GNP (CURRENT PRICES)	8.5 TO 9.5
PRIVATE CONSUMPTION	8 TO 9
PUBLIC CONSUMPTION	7 TO 8
GROSS FIXED INVESTMENT	9 TO 10
THEREOF: PUBLIC INVESTMENT	1 TO 2
INVENTORY CHANGES (DM BILLION)	(18 TO 20)
NET FOREIGN BALANCE (DM BILLION)	(24 TO 26)

PRICES

PRIVATE CONSUMPTION	UNDER 4
GNP	ABOUT 3.5

REAL GDP (1962 PRICES)	ABOUT 5
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SAVINGS RATE	ABOUT 14
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Message Attributes

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